



March 4, 2003

The following article, disproving many of the myths regarding the Bush tax relief package, appeared in the February 10, 2003 edition of the National Review. It is reprinted below for the benefit of all Republican Senators.

A Man with a Plan: Bush has an economic program; his critics have myths

By STEPHEN MOORE

The new Bush tax cut has been greeted with a level of media hysteria unrivaled since 1981, when the press corps predicted in unison that Reaganomics would cause economic ruin. So President Bush finds himself in all-too-familiar territory: It's two against one, with Democrats ganging up with the media against a Republican president's tax cut that's said to be too big, too tilted toward the rich, and too irresponsible.

I like Bush's odds of winning.

The challenge, though, is for the White House to get its message -- that the tax cut will boost economic growth and benefit all taxpaying families -- through the clutter of a biased media. The indispensable Media Research Center reports that "news" items on the Bush plan are running "at least 4 to 1" against it. Only one reporter on the network news has even bothered to inform viewers that the tax share paid by the rich would go up, not down, if the plan were enacted.

In some cases, the media can't even get their own biased version straight. On January 6, the day news of the Bush plan reached the public, the Washington Post warned in a front-page article (entitled "Analysis Finds Little Gain in Tax Cut Plan") that many economists believe the tax cut is too small to jump-start economic growth. That's a plausible complaint; but the next day, the Post blasted the tax cut for being too "irresponsible."

This unfocused media scorn suggests that Bush may be on to something here. His plan has attracted all the right enemies (from Tom

Daschle to Dan Rather to Paul Krugman) but also all the right friends: It is being welcomed enthusiastically by the 85 million American shareholders, who understand that supply-side tax cuts mean more wealth creation and more income security for retirement. The day that the Bush plan was announced, the stock market had one of its most bullish sessions in months. A sustained rally would be very welcome news for the investor class, which has surrendered more than \$5 trillion in wealth in the current bear market -- but very bad news for the Democratic presidential wannabes.

What is most needed to win passage of this plan is a tax-cut truth squad. I've pored through the media attacks of recent weeks against the Bush plan and have arranged the protests into three categories.

Myth One: The tax cut benefits only the rich. Paul Krugman of the New York Times declares that "90 percent of Americans . . . will get little or nothing from the dividend tax exemption." But the Tax Foundation's recent examination of IRS tax-return data finds just the opposite: Fully 34 million tax filers reported dividend income in 2000 -- and these returns represent 71 million people. That means a whole lot more than 10 percent of the population will benefit directly from the dividend-tax cut. And the income-tax cuts are even more widely distributed: Everyone who pays income taxes will get an income-tax cut under the Bush plan. The typical working family with two earners and a combined income of \$75,000 -- and I suspect very few of these households regard themselves as "rich" -- will get a \$2,021-a-year tax cut under the Bush plan. If the family's income is \$40,000, it gets a \$1,133 tax cut -- and not just for one year, as under the Democratic alternative, but forever.

And here is the biggest problem for class warriors: Proportionately, the rich get a smaller share of the Bush tax-cut pie than do middle-class taxpayers. The share of federal income taxes paid by Americans who make more than \$100,000 a year will rise (from 74 percent to 75 percent). The share paid by those who make less than a six-figure income will decline.

Myth Two: The tax cut will blow a hole in the deficit. The Bush tax cut provides \$670 billion in tax relief for Americans over the next ten years. That's not chump change, but it is hardly going to bankrupt the federal treasury either. Over the next decade the IRS will collect some \$25 trillion in taxes. The tax cut comes to less than three cents on the dollar, hardly a massive giveaway.

Nor is it accurate to say that the national debt will rise by the amount of the tax cut, unless one believes that tax cuts result in absolutely zero change in economic behavior. The truth is that for every action in the economy, there is a reaction. If we cut income-tax rates and eliminate the double tax on dividends, surely workers, businesses, and investors will behave differently. If the tax on work and hiring goes down, surely we will get more of both. If the dividend tax cut drives down the cost of investment, surely we will get more of that too.

The press continues to tout the results of economic models that have a perfect batting record of being wrong in predicting the future. For example, in 1997, when the capital-gains tax rate was cut, the crystal-ball gazers predicted a multibillion-dollar "cost" to the Treasury; in fact, the receipts doubled in four years. These are precisely the same economic models that are now telling us the Bush tax cut will bankrupt America.

Heritage Foundation economist Bill Beach predicts that the dividend tax cut alone is such potent medication for the economy that the Treasury should recapture about 50 to 70 percent of the supposed tax revenue loss from the tax cut. I'd put my money on Beach's estimates, which have a far better track record of accuracy.

But let us assume the worst-case scenario: no revenue recapture whatsoever from the Bush tax cut. Even in that extreme case, we could still have a balanced budget. If Congress were to modestly control its appetite for new spending – restraining it to 2 percent annual growth over the next four years – the budget could be balanced by 2006 even if the tax plan were implemented fully.

Another reason to suspect that the Bush tax cut will not run up the deficit is that if the taxes aren't cut it is much more likely that Congress will spend the money than save it. Nobel Prize winner Milton Friedman notes that one of the strongest arguments for the Bush tax cut is that it will discourage a stampede of congressional spending over the next several years. Friedman wrote in the Wall Street Journal that he supports Bush's plan because "we do not get our money's worth from the roughly 40 percent of our income that is spent by government. . . . Washington spends whatever it receives in taxes plus as much more as it can get away with."

Myth Three: The tax cut won't stimulate economic growth or job creation. On this, Bush has history firmly on his side. The 1963 Kennedy income-tax-rate reductions spurred a bull market, and a balanced budget by 1969. The 1981 Reagan tax cuts ushered in seven

years of prosperity and 15 million new jobs. The 1997 capital-gains cut fueled a bull-market rally, and a surge of investment and venture-capital funding for new businesses.

The critics point out that the 2001 Bush tax cut has failed to provide any juice for the economy, but there's a good reason for that: Seventy percent of the tax cuts haven't taken effect yet. The critics are strengthening the case for speeding up the tax cuts. The dividend tax cut, in particular, will provide rocket fuel for business expansion: John Rutledge, a respected Wall Street economist, has estimated that ending the double tax on dividends will increase stock values by some \$800 billion (roughly 10 percent), reduce businesses' cost of raising investment capital by 25 percent, and hasten a recovery in the battered high-technology and telecom industries (where hundreds of thousands of jobs have been lost).

The Democratic plan, on the other hand, offers virtually no economic-growth potential at all: It contains \$30 billion in new spending programs, temporary and impotent tax cuts, and another tax-rebate gimmick. It would stimulate nothing but government. Tax rebates will have no economic incentive effects whatsoever; that's why they failed to induce an economic revival under President Ford, and even under President Bush (in 2001).

All of this suggests that Bush has a winning hand -- but he must play it. In fact, Chicago-based economist Brian Wesbury says that because the financial markets have already partially discounted passage of a tax cut similar to what the White House has proposed, for the president to retreat from the plan could de-stimulate the economy and deflate the stock market. That's precisely why Bush should ignore the chorus of criticisms. The Republicans' wisest strategy going forward is to proceed precisely as Reagan did in 1981, when the media went into similar convulsions: ignore them, pass the program, and prove the critics wrong.